

April 15, 2005

**TO:** Board of Supervisors, Santa Clara County  
City Managers, Cities in Santa Clara County

**FROM:** Neelima Palacherla, LAFCO Executive Officer *NP*

**SUBJECT:** LAFCO Proposed Budget for FY 2005-2006

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At the April 13, 2005 meeting, LAFCO adopted its Proposed Budget for fiscal year 2005-2006. Please see the attached staff report and Proposed Budget for FY 2005-2006. Please call me at (408) 299-5127 or email me at [neelima.palacherla@ceo.sccgov.org](mailto:neelima.palacherla@ceo.sccgov.org) if you have any questions about the attached staff report or the proposed budget.

LAFCO is scheduled to adopt its Final Budget for FY 2005-2006 at a public hearing on Wednesday, June 8, 2005 at 1:15 pm. The hearing will be held in the Chambers of the Board of Supervisors at the County Government Center, 70 West Hedding Street, San Jose, CA 95110.

The County Auditor will bill the cities and the County for LAFCO costs based on the Final Budget adopted by LAFCO.

**Attachments:**

Staff Report and Proposed LAFCO Budget for FY 2005-2006

**CC:** County Executive  
City Council Members, Cities in Santa Clara County  
Santa Clara County Cities Association

Date Prepared: April 6, 2005  
LAFCO Meeting: April 13, 2005

TO: LAFCO

FROM: Neelima Palacherla, Executive Officer *up*

SUBJECT: Proposed Draft Budget FY 2005-2006  
Agenda Item # 5

### **STAFF RECOMMENDATION**

1. Adopt the Draft LAFCO Budget for fiscal year 2005-2006.
2. Find that the Draft FY-06 Budget is expected to be adequate to allow the Commission to fulfill its statutory responsibilities.
3. Authorize staff to transmit the proposed budget adopted by the Commission including the estimated agency costs as well as a notice for public hearing scheduled for June 8, 2005 on the adoption of the Final Budget for Fiscal year 2006 to each of the cities, the County and the Cities Association.

### **BACKGROUND**

#### **LAFCO Budget and Adoption Process**

The Cortese Knox Hertzberg Local Government Reorganization Act of 2000 (CKH Act) which became effective on January 1, 2001, requires LAFCO to annually adopt a draft budget by May 1 and a final budget by June 15 at noticed public hearings. Both the draft and the final budgets are required to be transmitted to the cities and the County. The CKH Act establishes that at a minimum, the budget must be equal to that of the previous year unless the Commission finds that reduced staffing or program costs will nevertheless allow it to fulfill its statutory responsibilities. Any unspent funds at the end of the year may be rolled into next fiscal year budget. After the adoption of the final budget, the County Auditor is required to apportion the net operating expenses of the Commission to the agencies represented on LAFCO.

### **Apportionment of LAFCO Costs**

The CKH Act requires LAFCO costs to be split in proportion to the percentage of an agency's representation (excluding the public member) on the Commission. Since the City of San Jose has a permanent membership on LAFCO, state law requires costs to be split between the County, the City of San Jose and the remaining cities. Hence the County pays half the LAFCO cost, the City of San Jose a quarter and the remaining cities the other quarter.

The cities' share (other than San Jose's) is apportioned in proportion to each city's total revenue as reported in the most recent edition of the Cities Annual Report (The 2000-2001 Report is the most current) published by the Controller, as a percentage of the combined city revenues within a county.

The CKH Act requires the County Auditor to request payment from the cities and the County no later than July 1 of each year for the amount each agency owes based on the net operating expenses of the Commission and the actual administrative costs incurred by the Auditor in apportioning costs and requesting payment.

### **FY 2005-2006 BUDGET TIMELINE**

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| <b>Dates</b>           | <b>Staff Tasks / LAFCO Action</b>   |
|------------------------|---|
| March 23 -<br>April 13 | Notice period, draft budget posted on LAFCO web site and available for review and comment on April 7  |
| April 13               | Public Hearing and adoption of draft budget   |
| April 13-<br>May 18    | Draft budget along with draft apportionment amounts transmitted to agencies (cities and County) together with notice of public hearing for the final budget hearing |
| June 8                 | Public hearing and adoption of final budget   |
| June 8 -<br>July 1     | Final budget along with final agency apportionments transmitted to agencies; Auditor requests payment from agencies   |

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## **WORK PLAN FOR FY 2005-2006**

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Service reviews and facilitation of island annexations will be the key areas of focus for LAFCO staff in Fiscal Year 2006. The public draft of the countywide water service review report is now available and a public hearing on the final report is tentatively scheduled for the June LAFCO meeting. Following that, staff will begin work on the review and update of spheres of influence of fire and water districts within the county. The two sub regional service reviews have also been initiated and we are currently in the process of hiring consultants.

With the recent adoption of island annexation policies by LAFCO, and the 2-year window for streamlined annexations ending in December 2006, staff will be working with the cities in several areas including conducting workshops, providing information and exploring ways to reduce annexation processing costs, among others.

Application processing activities are expected to continue at existing levels for all types except for city-conducted annexations, which are expected to increase significantly if the cities take advantage of the streamlined annexation provisions and undertake annexation of unincorporated islands. LAFCO has waived its fees for the next two years for such types of annexations.

LAFCO's public information / communication aspect of the work load includes among other things, upgrading of the LAFCO web site, conducting workshops, making presentations if requested by agencies, communities or other groups, maintaining and updating digital boundary maps of cities and special districts, and actively participating in CALAFCO conferences and workshops.

Other general work areas of LAFCO staff include administration of the LAFCO program, recruiting and hiring a new LAFCO Clerk, reviewing and updating of LAFCO policies and procedures when necessary, updating and redesigning of the LAFCO database, participating in training activities, tracking LAFCO and other related legislation and preparing budgets and fee schedule revisions.

The LAFCO Annual Report which will be published at the end of the current fiscal year will detail the types of applications processed and various activities / projects that LAFCO has completed in the current year.

## **STATUS OF CURRENT YEAR BUDGET (FY 2005)**

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The approved budget for the current year is \$606,679. It is projected that there will be a savings of about \$95,549 at the end of this fiscal year.

Projected Year End Savings = Projected Year End Revenue - Projected Year End Expenses

Projected Year End Savings = \$608,464 - \$512,914

Projected Year End Savings = \$95,549

This savings amount will largely be due to the following:

1. Not having spent the amount (\$60,000) allocated as reserves
2. Not having spent the entire amount allocated for Intra-County Professional.
3. Having a larger fund balance at the end of the previous year (FY 2004). Last year, \$165,490 was anticipated as savings from the FY 04 budget. However, the actual fund balance available was \$198,274.

The unspent funds and the larger than anticipated fund balance from FY-04 were offset by the lower revenues from the current year, but would still result in an estimated savings of about \$95,549 at the end of the current fiscal year 2005. These savings would be carried over to reduce the proposed FY 06 budget's costs for the cities and the County.

## **PROPOSED FY 2005-2006 BUDGET**

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At its February 2005 LAFCO meeting, the Commission appointed a Budget Sub-Committee composed of Commissioners Don Gage and Linda LeZotte and LAFCO staff. The Commission directed the budget sub-committee to develop a draft budget for Commission consideration. The proposed budget has been developed by the budget sub-committee.

The proposed budget for FY 2005-2006 is \$649,776. Despite not proposing any increases in program costs or staffing levels, the proposed budget is slightly higher (about 7%) than the budget for the current year. The increase is on account of the higher staffing costs transferred by the County to LAFCO. A detailed itemization of the budget is provided below.

**Object 1. SALARIES AND BENEFITS**

**Executive Officer and LAFCO Analyst \$196,861**

The Executive Officer and LAFCO Analyst positions would continue to be staffed through the County Executive's Office. The Executive Officer's position is expected to remain at the 60% level. The Analyst would remain full time. The proposed salary and benefits for the Executive Officer (0.6 FTE) is \$74,429 and the salary and benefits for the LAFCO Analyst (1 FTE) is \$122,432.

This item is being increased from \$180,552 to \$196,861 to account for the cost of living expenses and the increase in benefits costs for the two positions.

**LAFCO Clerk / Coordinator \$127,175**

The LAFCO Clerk position is currently being filled through the County's Clerk of the Board Office. The Clerk's Office has informed LAFCO that they will be unable to continue to provide the LAFCO Clerk position in the next fiscal year. Therefore LAFCO staff is in the process of working with the County to create a unique position for LAFCO Clerk/Coordinator in the County Executive's Office.

If the LAFCO Clerk position were staffed through the Clerk's Office, the estimated cost would be \$127,175, which includes the salary and benefits for the full time position as well as the administrative overhead charged by the department.

The actual salary and benefits amount for the new LAFCO Clerk/Coordinator position has not yet been determined. The amount of \$127,175 is budgeted for that purpose.

**Object 2. SERVICES AND SUPPLIES**

**5258200 INTRA-COUNTY PROFESSIONAL \$107,320**

**LAFCO Counsel \$52,800**

LAFCO would continue to contract with the Office of the County Counsel for this position on an as needed basis at an hourly rate of \$176 (for FY 06) for an estimated 300 hours annually.

**LAFCO Surveyor \$44,520**

The County Surveyor will continue to assist with map review and approval. It is estimated that about 420 hours of service will be required in the next fiscal year. The County Surveyor's Office charges at the rate of about \$106 per hour.

**Miscellaneous Staffing \$10,000**

This amount allows LAFCO to seek technical assistance from the County Planning Office on CEQA or other planning issues. LAFCO accesses data in the County Planning Office's GIS server. This item includes maintenance and technical assistance for GIS, if necessary.

**5255500 CONTRACT SERVICES \$100,000**

A portion of this item (\$45,000) has been committed for the purpose of hiring a consultant to conduct the sub regional service reviews. The total cost of the service review must not exceed \$140,000. About \$95,000 is available in the current year budget.

The remaining \$55,000 within this item is being budgeted for hiring consultants to assist cities with conducting island annexations. Several cities have requested LAFCO assistance in developing annexation plans, gathering technical information, developing community outreach programs and assisting in annexation process/project management.

**5210100 FOOD \$750**

This item is being maintained at \$750.

**5220200 INSURANCE \$96**

This item is based on an estimate provided by the County to cover general liability, auto liability and other miscellaneous coverages. Worker's Compensation is part of the payroll charge.

**5250100 OFFICE EXPENSES \$2,000**

This item is being maintained at \$2,000 and provides for the purchase of books, periodicals, small equipment and supplies throughout the year.

**5255650 DATA PROCESSING SERVICES \$12,193**

This item includes funds for web site maintenance (64 hours of software engineer time for a total of \$5,775) and LAN services (\$6,040, which includes 64 hours of support) and Lotus Notes Software maintenance (\$364).

**5225500 COMMISSIONER'S FEES \$1,500**

This provides for a per diem of \$50 to each of the five the commissioners for attendance at the six LAFCO meetings through the year.

**5260100 PUBLICATIONS AND LEGAL NOTICES \$1,000**

The budget for this item is being maintained at \$1,000. This amount is for publication of hearing notices as required by state law for LAFCO applications and other projects/ studies.

**5245100 MEMBERSHIP DUES \$2,161**

This amount provides for membership to the statewide association, CALAFCO -- the California Association of LAFCOs.

**5250750 PRINTING AND REPRODUCTION \$1,500**

An amount of \$1,500 is being budgeted for printing expenses for reports such as service review reports or other studies.

**5285800 BUSINESS TRAVEL \$9,000**

This item is for both staff and commissioners to attend conferences and workshops. It would cover air travel, accommodation, conference registration and other expenses at the conferences. CALAFCO annually holds a Staff Workshop and an Annual Conference that is attended by commissioners as well as staff. In addition, this item covers the travel expenses for commissioner's travel to the CALAFCO Board meetings. Commissioner Wilson is on the CALAFCO Board.

**5285300 PRIVATE AUTOMOBILE MILEAGE \$600**

This item is being increased slightly by \$100 to \$600 and provides for travel to conduct site visits, attend meetings, training sessions etc.



**5285200 TRANSPORTATION AND TRAVEL (for use of County car) \$500**

This item would allow for the use of a County vehicle for travel to conferences, workshops and meetings.

**5281600 OVERHEAD \$14,120**

This is an amount established by the County Controller's Office, for service rendered by various county departments that do not directly bill LAFCO for service. The FY 2006 costs have decreased by about \$14,000 from the previous year.

**5275200 COMPUTER HARDWARE \$2,000**

This item is being maintained at \$2,000 and will be used for hardware upgrades / purchases.

**5250800 COMPUTER SOFTWARE \$2,000**

This item is for purchases of computer software that would be required for the program and is also being maintained at \$2,000.

**5250250 POSTAGE \$2,000**

This amount is budgeted for the cost of mailing notices, agendas, agenda packets and other correspondence. This amount is being maintained at \$2,000.

**5252100 TRAINING PROGRAMS \$2,000**

This item provides for staff development courses and seminars and is being increased by \$500.

**5701000 RESERVES \$60,000**

This item includes reserves for two purposes: litigation reserve – for use if LAFCO is involved with any litigation and contingency reserve - to be used to deal with any unexpected expenses. This amount is about 10% of the proposed budget for Fiscal Year 2006. If used during the year, this account will be replenished in the following year. In the past three years, LAFCO has not had to use the reserves.

### 3. REVENUES

#### 4103400 Application Fees \$35,000

It is anticipated that LAFCO will earn about \$35,000 in fees from processing applications. This amount is based on the current level of application activity, which is much lower than previous years. Additionally, since LAFCO has adopted a fee waiver for entire island annexations, we anticipate lower revenues.

The actual amount earned from fees is not within LAFCO control and would depend entirely on the actual level of application activity.

#### 4301100 Interest \$5,000

It is estimated that LAFCO will receive an amount of about \$5,000 from interest earned on LAFCO funds based on current earnings.

### COST APPORTIONMENT TO CITIES AND COUNTY

#### Calculation of Net Operating Expenses

FY 2006 Net Operating Expenses = Proposed FY 2006 Expenditures -- Proposed FY2006 Fee Revenues  
-- Projected Year End Savings

FY 2005 Net Operating Expenses = \$644,776 - \$40,000- \$95,549

FY 2005 Net Operating Expenses = \$509,227

The proposed net operating expenses for FY 06 is higher (about \$144,000) than the current year net operating expenses. This cost increase is mostly due to lower projected revenues for FY 06 from application fees, lower (compared to previous years) savings or fund balance from FY 05 and slight increase in County costs for salary and benefits.

This would result in a corresponding increased cost to the cities and the County increases from the previous year. The projected operating expenses for FY 2006 are based on projected savings and expenses for the current year and are not actual figures. It is therefore to be expected that there will be revisions to the budget as we get a better indication of current year expenses towards the end of this fiscal year. This could result in changes to the proposed net operating expenses for FY 2006 which could in turn impact the costs for each of the agencies. Provided below is the draft apportionment to the agencies based on the proposed net operating expenses for FY 2006 (\$509,227).

**Cost to Agencies**

|                                   |           |
|-----------------------------------|-----------|
| County of Santa Clara             | \$254,614 |
| City of San Jose                  | \$127,307 |
| Remaining 14 cities in the County | \$127,307 |

Apportionment of the costs among the 14 cities will be based on percentage of the cities' total revenues and will be calculated by the County Controller's Office after LAFCO adopts the final budget in June. A draft of the estimated apportionment to the cities is included as Attachment B to provide the cities a general indication of the LAFCO costs.

**ATTACHMENTS**

- Attachment A: Proposed Draft Budget for FY 2005-2006
- Attachment B: Estimated Costs to Agencies Based on the Draft Budget

**DRAFT LAFCO BUDGET  
FISCAL YEAR 2005 - 2006**

**Item No. 5  
Attachment A**

| ITEM #                              | TITLE   | APPROVED<br>FY 04-05<br>BUDGET | END OF<br>YEAR<br>PROJECTIONS | PROPOSED<br>FY 05-06<br>BUDGET |
|-------------------------------------|---|--------------------------------|-------------------------------|--------------------------------|
| <b>EXPENDITURES</b>                 |   |                                |                               |                                |
| Object 1:                           | Salary and Benefits                             | \$180,552                      | \$180,552                     | \$324,036                      |
| Object 2:                           | Services and Supplies                           |                                |                               |                                |
| 5258200                             | Intra-County Professional                       | \$200,618                      | \$180,000                     | \$107,320                      |
| 5255500                             | Consultant Services                             | \$100,000                      | \$100,000                     | \$100,000                      |
| 5210100                             | Food  | \$750                          | \$300                         | \$750                          |
| 5220200                             | Insurance                                       | \$84                           | \$84                          | \$96                           |
| 5250100                             | Office Expenses                                 | \$2,000                        | \$1,500                       | \$2,000                        |
| 5255650                             | Data Processing Services                        | \$11,897                       | \$4,000                       | \$12,193                       |
| 5225500                             | Commissioners' Fee                              | \$1,500                        | \$1,250                       | \$1,500                        |
| 5260100                             | Publications and Legal Notices                  | \$1,000                        | \$750                         | \$1,000                        |
| 5245100                             | Membership Dues                                 | \$2,113                        | \$2,113                       | \$2,161                        |
| 5250750                             | Printing and Reproduction                       | \$1,500                        | \$200                         | \$1,500                        |
| 5285800                             | Business Travel                                 | \$8,000                        | \$8,000                       | \$9,000                        |
| 5285300                             | Private Automobile Mileage                      | \$500                          | \$500                         | \$600                          |
| 5285200                             | Transportation&Travel (County Car Usage)        | \$500                          | \$500                         | \$500                          |
| 5281600                             | Overhead  | \$28,165                       | \$28,165                      | \$14,120                       |
| 5275200                             | Computer Hardware                               | \$2,000                        | \$1,000                       | \$2,000                        |
| 5250800                             | Computer Software                               | \$2,000                        | \$1,000                       | \$2,000                        |
| 5250250                             | Postage   | \$2,000                        | \$1,500                       | \$2,000                        |
| 5252100                             | Staff Training Programs                         | \$1,500                        | \$1,500                       | \$2,000                        |
| 5701000                             | Reserves  | \$60,000                       | \$0                           | \$60,000                       |
| <b>TOTAL EXPENDITURES</b>           |   | <b>\$606,679</b>               | <b>\$512,914</b>              | <b>\$644,776</b>               |
| <b>REVENUES</b>                     |   |                                |                               |                                |
| 4103400                             | Application Fees                                | \$75,000                       | \$40,000                      | \$35,000                       |
| 4301100                             | Interest: Deposits and Investments              | \$2,000                        | \$5,000                       | \$5,000                        |
|                                     | <b>Total Interest / Application Fee Revenue</b> | <b>\$77,000</b>                | <b>\$45,000</b>               | <b>\$40,000</b>                |
| 4600100                             | Cities (Revenue from other Agencies)            | \$182,595                      | \$182,595                     |                                |
| 5440200                             | County  | \$182,595                      | \$182,595                     |                                |
|                                     | <b>Savings/Fund Balance from previous FY</b>    | <b>\$164,490</b>               | <b>\$198,274</b>              | <b>\$95,549</b>                |
| <b>TOTAL REVENUE</b>                |   | <b>\$606,680</b>               | <b>\$608,464</b>              |                                |
| <b>NET LAFCO OPERATING EXPENSES</b> |   | <b>\$365,189</b>               |                               | <b>\$509,227</b>               |
| <b>COSTS TO AGENCIES</b>            |   |                                |                               |                                |
|                                     | County  | \$182,595                      |                               | \$254,614                      |
|                                     | City of San Jose                                | \$91,297                       |                               | \$127,307                      |
|                                     | Other Cities                                    | \$91,297                       |                               | \$127,307                      |

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# 2005/2006 LAFCO COST APPORTIONMENT

## Estimated Costs to Agencies Based on the DRAFT Budget

LAFCO Net Operating Expenses for 2005/2006

\$509,227

| Jurisdictions       | Revenue per<br>2002/2003<br>Report | Percentage of<br>Total Revenue | Allocation<br>Percentages | Allocated Costs     |
|---------------------|------------------------------------|--------------------------------|---------------------------|---------------------|
| County              | N/A                                | N/A                            | 50.0000000%               | \$254,613.50        |
| San Jose            | N/A                                | N/A                            | 25.0000000%               | \$127,306.75        |
| Campbell            | \$32,891,311                       | 2.3481246%                     | 0.5870311%                | \$2,989.32          |
| Cupertino           | \$54,314,503                       | 3.8775353%                     | 0.9693838%                | \$4,936.36          |
| Gilroy              | \$64,950,590                       | 4.6368500%                     | 1.1592125%                | \$5,903.02          |
| Los Altos           | \$24,185,913                       | 1.7266425%                     | 0.4316606%                | \$2,198.13          |
| Los Altos Hills     | \$6,976,235                        | 0.4980364%                     | 0.1245091%                | \$634.03            |
| Los Gatos           | \$26,221,022                       | 1.8719298%                     | 0.4679825%                | \$2,383.09          |
| Milpitas            | \$72,963,039                       | 5.2088621%                     | 1.3022155%                | \$6,631.23          |
| Monte Sereno        | \$1,694,050                        | 0.1209389%                     | 0.0302347%                | \$153.96            |
| Morgan Hill         | \$36,342,726                       | 2.5945225%                     | 0.6486306%                | \$3,303.00          |
| Mountain View       | \$131,435,450                      | 9.3832322%                     | 2.3458081%                | \$11,945.49         |
| Palo Alto           | \$305,150,000                      | 21.7847872%                    | 5.4461968%                | \$27,733.50         |
| Santa Clara         | \$414,752,756                      | 29.6093741%                    | 7.4023435%                | \$37,694.73         |
| Saratoga            | \$18,118,864                       | 1.2935133%                     | 0.3233783%                | \$1,646.73          |
| Sunnyvale           | \$210,751,676                      | 15.0456510%                    | 3.7614128%                | \$19,154.13         |
| Total               | \$1,400,748,135                    | 100.0000000%                   | 100.0000000%              | \$509,226.97        |
| <b>Total Cities</b> |                                    |                                |                           | <b>\$127,308.72</b> |